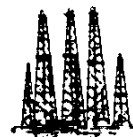


HERBALY PETROLEUM CORP.

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April 28, 1997

Mr. David Guzy
Chief of Rules & Procedures Staff
Royalty Management Program
Royalty Management Service
P. O. Box 25165 MS 3101
Denver, Colorado 80225

Dear Mr. Guzy,

Your proposed rules on crude oil valuation are unfair to small producers who sell their oil under arm's-length agreements.

Herbaly Petroleum Corp. is a small independent oil and gas producer with operations primarily in Wyoming. Most of our oil is asphaltic sour, with gravity of 23-30° API and some sulphur content. Because of the lower quality and location away from populated markets, our crude sells for about \$3.75 per barrel less than the price quoted on the NYMEX futures market. The price spread is increasing and our price is dropping further due to the recent completion of the Express Pipeline which is bringing in additional crude oil from Hardisty, Alberta to Casper, Wyoming.

All of our crude oil is sold at arm's-length to unrelated purchasers. We have our choice of several different companies to sell to at competitive prices.

This rule makes no provision for the lower prices paid for lower quality crude or oil produced in remote locations. The Federal government is paid its royalty share at exactly the same price we receive. What could be more equitable?

The proposed rule is arbitrary and unfair to the numerous producers in situations similar to ours. Small producers selling at arm's-length should be exempted from this rule, or the rule should be scrapped altogether.

Yours truly,

David L. Herbaly *DLH*

David L. Herbaly
Vice President

cc: Carla Wilson, IPAMS